The Public Utilities Board

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Winnipeg, Manitoba
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MANITOBA) Order No. 43/90
)
THE PUBLIC UTILITIES BOARD ACT)
)
THE MANITOBA HYDRO ACT)
)
THE CROWN CORPORATIONS PUBLIC)
REVIEW AND ACCOUNTABILITY AND)
CONSEQUENTIAL AMENDMENTS ACT) March 26, 1990

BEFORE: E. J. Robertson, Chairman
D. L. Barrett-Hrominchuk, Member
J. E. Berry, Member
T. D. Bulloch, Member
W. T. Laird, Member
W. C. Pearson Q.C., Member
Catherine Milner, Member

THE MANITOBA HYDRO APPLICATION FOR AN ORDER APPROVING AN INCREASE IN ITS EXISTING RATES EFFECTIVE APRIL 1, 1990

In November, 1989 Manitoba Hydro ("Hydro") filed an application with The Public Utilities Board ("the Board") for an order approving an increase in its existing rates. The application was made pursuant to The Crown Corporations Public Review and Accountability and Consequential Amendments Act ("Crown Corporations Act"). A public notice was issued dated December 19, 1989, followed by Board Order No. 187/89 which set out the procedure leading up to a public hearing held at the Hotel Fort Garry in Winnipeg on February 19th to 24th, 1990. One-day non-evidential hearings were held in The Pas, Thompson, Thicket Portage, Pikwitonei and Virden to allow customers living in various regions to present their views on the Hydro application.

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TABLE OF CONTENTS

EXECUTIVE SUMMARY 4

APPEARANCES 7

WITNESSES FOR MANITOBA HYDRO 7

WITNESSES FOR INTERVENORS 7

PRESENTERS 8

THE GENERAL RATE APPLICATION 10

1.0 BACKGROUND 10

2.0 FINANCIAL 13

2.1 Revenue Requirements 13

2.2 Short Term Financial Objectives 18

2.3 Long Term Financial Objectives 20

2.4 Guarantee Fee 23

2.5 Water Rental Rates 25

2.6 Manitoba Energy Foundation Act (MEFA) 28

2.7 Operating and Administrative Expenses 29

2.8 Foreign Exchange Exposure 31

2.9 Pension Costs 33

3.0 COST OF SERVICE 35

3.1 Generation and Transmission Costs 35

3.2 Cost of Service Accuracy 36

4.0 RATES 38

4.1 Zone of Reasonableness 38

4.2 Rate Objectives and Levels 38

4.3 Rate Design 40

5.0 OTHER MATTERS 41

5.1 Winnipeg Hydro Agreement 41
5.2 Diesel Full-Cost Customers 41
5.3 Responses to the Board's 1989 Recommendations 43
6.0 THE PRESENTERS 46

IT IS THEREFORE RECOMMENDED THAT: 48

IT IS THEREFORE ORDERED THAT: 49

APPENDICES 51
1.0 Integrated Financial Forecast (IFF) 89-3 51
2.0 Integrated Financial Forecast (IFF) 89-3 with MEFA Repeal 51

EXECUTIVE SUMMARY

In November 1989 Manitoba Hydro applied to The Public Utilities Board (The Board) for a review of a proposed revenue increase of $25.8 million (rounded) which approximates a 4.5% increase in general consumer revenue to be implemented April 1, 1990.

Concurrently with the above rate application, Manitoba Hydro applied to the Board for final approval of Interim Ex-Parte Order No. 186/89 dealing with changes in Diesel Full Cost rates.

Therefore, the Board ordered that:

1. The applied for average increase in general consumer rates to be implemented April 1, 1990 be reduced by 0.5% to 4.0% resulting in an approved increase in revenue requirements of approximately $22.9 million.

2. The resulting reduction in applied for revenues of approximately $2,898,000 be allocated as follows:

    i) the proposed increase to streetlighting rates be reduced from of 1.5% to 1.0% (from $221,874 to approximately $148,000);
    ii) the proposed increase to small general service rates be reduced from 3.4% to 2.9% (from $3,573,090 to approximately $3,014,000);
    iii) the proposed increase to medium general service rates be reduced from 4.4% to 3.9% (from $3,053,243 to approximately $2,693,000);
    iv) the proposed increase to large general service rates be reduced from 4.4% to 3.9% (from $5,742,821 to approximately $5,059,000);

v) the proposed increase to construction power rates be reduced from 4.4% to 3.9% (from $87,598 to approximately $77,000);

vi) the balance of the revenue reduction of approximately $1,211,000 be allocated to the residential customers (from a proposed increase of 5.5% to 5.0%);

3. Hydro submit a revised schedule of rates to accommodate the foregoing for the Board's approval.

4. Hydro file a proof of revenue to support this schedule of rates.

5. Hydro provide the Board with a copy of the new agreement with Winnipeg Hydro as soon as negotiations are completed.

6. The Diesel Full-Cost Rates effective July 1, 1989 and July 1, 1990 as set out in Interim Ex-Parte Order 186/89, be and are hereby confirmed.

Therefore, the Board recommended that:

1. Hydro and the Province should negotiate the guarantee fee to ensure that the fee is commensurate with the associated risk for which the fee is intended.

2. Future increases in water rental rates, as set by the Province, should not exceed the rate of inflation in any given year.

3. Consistent with Board Order 99/89, it is proper to fund the unfunded pension liability and the Board notes that Manitoba Telephone System has begun such a program.

4. Hydro file the report of its consultant, regarding cost of service methodology, at the earliest possible opportunity rather than filing it at the next rate application.

5. Hydro file with the Board as soon as possible, and by no later than the next rate hearing, a procedure by which the interruptible rates for domestic users may be addressed by the Board in a timely manner.

APPEARANCES

W. C. Gardner, Q.C. K. D. Munro A. D. Feller	Counsel for The Public Utilities Board of Manitoba
R. E. Roth	Counsel for Manitoba Hydro
A. L. Campbell, Q.C.	Counsel for Manitoba Industrial Power Users Group (MIPUG)
A. Peltz	Counsel for the Consumers Association of Canada (Manitoba) and Manitoba Society of Seniors - (CAC/MSOS)
R. H. McCleverty	Northern Association of Community Councils
R. W. Bamburak	Winnipeg Hydro

WITNESSES FOR MANITOBA HYDRO

A. B. Ransom	Chairman, Manitoba Hydro Board and Manitoba Energy Authority
G. H. Beatty	President and Chief Executive Officer
R. B. Brennan	Senior Vice-President Finance and Administration and Chief Financial Officer
C. E. Wray	Division Manager, Financial Planning and Economic Analysis Division
K. R. Wiens	Manager, Rates Department
D. W. Gunter	Division Manager, System Operating Division
K. Boocock	Deloitte & Touche Management Consultants
H. J. Vander Veen	Ernst & Young Utility Group

WITNESSES FOR INTERVENORS

C. F. Osler	Inter-Group Consultants Ltd. for MIPUG

PRESENTERS

Winnipeg:

T. Ducharme	Representing People in Equal Participation Incorporated
K. Potter	A private citizen
J. Bahrij	A private citizen
H. Kelly	A private citizen
C. Arklie	A private citizen
E. Campbell	President, Northern Association of Community Councils

The Pas:

B. Unfried	Mayor, The Pas
E. Head	Representing Northern Association of Community Councils

Thompson:

L. Miller	Representing Paint Lake Remote Cottage Owners
P. Brown	Representing Wabowden Community Council
D. Lindquist	A private citizen
R. H. McCleverty	Mayor, Thicket Portage

Thicket Portage:

R. H. McCleverty	Mayor, Thicket Portage
N. Pronteau	Council Clerk, Thicket Portage
F. Pronteau	A private citizen
A. Dorion	A private citizen

K. Himmelman	A private citizen
H. Pronteau	A private citizen
W. Brightnose	A private citizen

Pikwitonei:

J. Thorne	Mayor, Pikwitonei
R. Cordell	A private citizen

Virden:

J. Marsh	A private citizen

THE GENERAL RATE APPLICATION

1.0 BACKGROUND

This hearing is the fifth appearance by Hydro before the Board. During Hydro's third appearance in 1988, the Board heard appeals pursuant to the then Section 39 of The Manitoba Hydro Act regarding the reasonableness and necessity of rate increases already imposed in 1986 and 1987 and proposed for April 1, 1988. The hearing resulted in a Report to the Minister dated March 31, 1988, pursuant to the then Section 39(11) of The Manitoba Hydro Act. In 1989, the Board, under the new authority of The Crown Corporations Act, reviewed rates which resulted in Board Orders No. 42/89 and No. 99/89. The present application was made by Hydro, again under The Crown Corporations Act, to seek review and approval of rates to be effective April 1, 1990.

Key issues which were apparent in the 1988 hearing and the Report to the Minister have changed little and can be readily understood against the background of the Integrated Financial Forecasts (IFFs) provided by Hydro at each of the three hearings referred to above. IFF89-3 is the latest projected statement of operations of Hydro filed as evidence at this hearing and is attached as Appendix 1 to this Order.

IFF89-3 provides, among other things, Hydro's projections of future reserve levels, debt equity ratios, interest coverage ratios and estimates of future rate increases required, in Hydro's view, to achieve their short-term and long-term financial targets. It should be clearly understood that the only rate increase currently under review in this Order is related to the fiscal year ending March 31, 1991. Rate increases included by Hydro in IFF89-3 are for forecasting purposes only. Further rate increases will be reviewed by the Board at subsequent rate hearings. It should be appreciated that IFF89-3 is dependent upon assumptions regarding many variables. Major factors beyond Hydro's control include:

- possibilities of drought
- Government charges

The IFF89-3 indicates the projected financial results of Hydro for the fiscal years ended March 31, 1990 to March 31, 2009 and sets out the long-term and short-

term financial objectives of the Corporation as approved by the Manitoba Hydro Board (Hydro Board) on September 15, 1989.

Some observations are:

1. Hydro has forecast general consumer revenue over the 20 year projection period. The proposed revenue increase of 4.5% is set out together with further projected annual increases of 5.0% to 1995.

2. IFF89-3 shows Hydro exceeding its minimum target reserve by 1995. The reserve forecast at 1995 is $395.6 million and the minimum target reserve is $370.0 million.

3. IFF89-3 shows Hydro meeting its long-term objective of a debt-equity ratio of 85:15 within 10 years following attainment of the minimum target reserve.

4. IFF89-3 shows interest coverage reaching a high of 1.40 in 2000 and a low of 0.85 in 2006 which fluctuations are principally related to new capital facilities. Hydro's long term objective for an interest coverage ratio is 1.15 to 1.25.

5. IFF89-3 shows the impact of the introduction of new generation facilities on Hydro's revenue projections. In 1993 the net loss is projected to be $2.2 million due to the start-up of Limestone beginning in late 1990. Net losses are also noted from 2002 to 2008 coincident with Conawapa coming on stream. These net losses reduce forecast reserves accordingly.

6. Water rental charges for 1991 are shown as $35.8 million and are projected to increase approximately 22% to $43.6 million in 1992. Normal water flows and increased water used in the generation

associated with the introduction of Limestone have been factored into the increase.

During the hearing, the Board and other parties considered the impact of the repeal of the MEFA on IFF89-3. Appendix 2 (submitted in response to MIPUG information request No. 14) shows the positive impact on Hydro's projections as a result of the recent repeal of MEFA.

In this application Hydro seeks a 4.5% overall increase in rates to General Consumers effective April 1, 1990 derived from the following increases in major customer classes:

		Increase/(Decrease) %
Residential		5.5%
General Service	- small	3.4
	- medium	4.4
	- large	4.4
Area and Roadway Lighting		1.5
Construction Power		4.4
Diesel		(11.8)
Total General Consumers		4.5

In August 1989, the Hydro Board approved the long term objective that all revenue cost coverage ratios, for major rate classes, should fall within a zone of reasonableness of 0.90 to 1.10. The Hydro Board also required that the rate increase to any customer class should not exceed the average for all classes plus 1%.

2.0 FINANCIAL

2.1 Revenue Requirements

This application seeks an increase in Hydro's revenues of $25.8 million (rounded). It represents an increase to General Consumers effective April 1, 1990 of approximately 4.5 percent The total increase in revenue requirement is allocated between the five major customer classes as follows:

	REVENUE INCREASE (DECREASE) ($ 000's)
Residential	$13,539
General Service - small	3,573
- medium	3,053
- large	5,743
Area and Roadway Lighting	222
Construction Power	88
Diesel	(452)
Total General Consumers	$25,766

In IFF89-3, Hydro projects 1990 net revenues for transfer to reserves of $37.9 million. However, in pre-filed testimony and again during examination by Board counsel. Mr. Brennan testified (Transcript pages 437 and 1282) that revised estimates for 1990 indicate the net transfer to reserves will be approximately $30 million, or about $7.9 million lower, largely due to lower than anticipated water flows.

In 1989, Hydro estimated 1991 net revenues for transfer to reserves of $48.7 million. The estimate of $48.3 million filed during the 1990 hearing for the same period is comparable in total although the estimates of revenues and costs making up this net revenue figure have changed. Hydro filed evidence for 1991 that extraprovincial

revenues from export sales are expected to decline by $10.7 million because of drought, and in addition water rental costs are expected to rise $3.2 million. The resultant decline in net revenues is offset by a decline in finance costs of $5.6 million due to favourable exchange rates and a $6.2 million reduction in forecasted operations expense due to management constraints and the deferral of maintenance programs.

Without the requested rate increase and assuming normal precipitation and reservoir levels, Hydro forecasts that they will earn net revenues for 1991 of $16.6 million. Hydro stated, on page 5 and 6 of the Rate Increase Application, that the increased revenue of approximately $25.8 million (all of which is transferred to reserves) was necessary to enable:

> "... reserve levels to recover from the depletion due to the drought, and to move towards attaining our minimum target reserve levels ... within five years [1994/95]."

Mr. Brennan testified, in response to questions by counsel for CAC/MSOS, that the forecasted results for 1991 will likely be something less because:

> "... a $3 million net revenue reduction due to decreased opening reservoirs in 90/91 is already anticipated [and] ... In addition to that, we have the present concern about interest rates."
>
> (Transcript page 1283)

On the matter of the impact on the minimum target reserve, counsel for CAC/MSOS, on pages 353-355 and page 959 of the transcript, asked Mr. Brennan to confirm that if the Board:

> "...saw fit to grant a one-percent reduction this year on a one-time basis that quite likely you would still achieve your

target minimum reserve by 1994/95 as the Hydro Board indicated you should."

Mr. Brennan responded on behalf of Hydro that:

> "...with all assumptions occurring as anticipated, in IFF89-3, a 0.6 percent reduction in the proposed rate increase in 1990/91 to 3.9 percent would yield a minimum target level by 94/95 with rate increases of 5 percent in the following years."
>
> (Transcript page 1282)

Hydro added that:

> "...including [the $7 million reduction in revenue in 1989/90 and the $3 million reduction in revenue in 1990/91] in the calculation would reduce the decrease to about 0.4 percent, resulting in a 4.1 percent 90/91 rate increase ... without considering interest costs."
>
> (Transcript page 1283)

Hydro's witnesses testified that IFF89-3 assumed an interest rate of 10% for 1991.

Dr. Campbell's final argument, on pages 1372 to 1373 of the transcript, summarized MIPUG's acceptance of "...an average rate increase of 4.5% for this year is reasonable in light of all of the circumstances, particularly the present level of inflation and the continuing problems of water."

Mr. Boocock, on page 35 of his report, stated that price increases should be closely aligned to increases in the general rate of inflation. He acknowledged in response to questions from Board counsel that:

> "If the general level of inflation was to fluctuate dramatically or increase significantly, I think one would revisit whether one kept the linkage between rates and the inflation rate."
>
> (Transcript page 506)

On further examination, Mr. Boocock testified that aligning rate increases to inflation does not presume that Hydro's costs will necessarily rise at the rate of inflation but rather that:

> "...the use of inflation rates as a control mechanism on the rise being requested, does result in rate stability and does result in the building up of the financial reserves."
>
> (Transcript page 508)

Board Findings

The Board acknowledges Hydro's goal for achieving its short term financial objectives as envisaged in its IFF89-3. The Board considers Hydro's intention to accomplish this by 1995 as reasonable, based on the assumptions presented in Hydro's forecasts. Nevertheless, the Board notes that Hydro expects not only to achieve, but to surpass the minimum target reserves by approximately $15 million after consideration of the reduced water flows in 1990 and 1991 of $10 million noted by Hydro since the development of IFF89-3. The Board also appreciates the position of CAC/MSOS, as well as the position of many presenters, that a 5.5% increase is too onerous for the Residential ratepayer.

The exchanges between Mr. Peltz and Mr. Brennan indicates that a 4% increase in rates for 1991 would appear to provide the required revenue for Hydro to reach, by 1995, its minimum target reserves, accepting all other assumptions that are included in the forecast.

Consequently, the Board will approve a 4.0% average increase that is 0.5% lower average increase than that applied for by Hydro. In determining how the

reduction is to be applied to the various rate classes, the Board supports the Applicant's goal to bring revenue to cost coverage (RCC) of the rate classes closer to unity. The Board is also cognizant of MIPUG's position that the general service class, and in particular the large general service subclass, should not be assessed rate increases which would result in a higher RCC. Therefore, the Board will order a 0.5% reduction in the revenue increase be applied equally to all General Consumer classes as well as Area & Roadway Lighting and Construction Power, but excluding Diesel. The adjusted rates of increase are as follows:

Residential	5.0%
General service:	
Small	2.9%
Medium	3.9%
Large	3.9%
Area & Roadway Lighting	1.0%
Construction Power	3.9%

The 0.5% revenue increase reduction will reduce Hydro's requested revenue requirement increase by approximately $2.9 million to $22.9 million. On the basis of Hydro's forecast IFF89-3, the adjusted contribution to reserves in 1991 will be $45.4 million before considering the adjustments to the forecast referred to by Mr. Brennan in his discussions with Mr. Peltz. The Board is of the opinion that this decision will not jeopardize Hydro's short or long term financial objectives.

Board Decision

It is therefore ordered that:

1. The applied for average increase in general consumer rates to be implemented April 1, 1990 be reduced by 0.5% to 4.0% resulting in an approved increase in revenue requirements of approximately $22.9 million.

2. The resulting reduction in applied for revenues of approximately $2,898,000 be allocated as follows:

   i) the proposed increase to streetlighting rates be reduced from of 1.5% to 1.0% (from $221,874 to approximately $148,000);
   ii) the proposed increase to small general service rates be reduced from 3.4% to 2.9% (from $3,573,090 to approximately $3,014,000);
   iii) the proposed increase to medium general service rates be reduced from 4.4% to 3.9% (from $3,053,243 to approximately $2,693,000);
   iv) the proposed increase to large general service rates be reduced from 4.4% to 3.9% (from $5,742,821 to approximately $5,059,000);
   v) the proposed increase to construction power rates be reduced from 4.4% to 3.9% (from $87,598 to approximately $77,000);
   vi) the balance of the revenue reduction of approximately $1,211,000 be allocated to the residential customers (from a proposed increase of 5.5% to 5.0%);

3. Hydro submit a revised schedule of rates to accommodate the foregoing for the Board's approval.

4. Hydro file a proof of revenue to support this schedule of rates.

2.2 Short Term Financial Objectives

Hydro stated that the basic objective of its financial targets is "...to provide an optimum financial structure within which the Corporation can meet its mandate to

provide economical power to Manitobans while maintaining rate stability and financial self-sufficiency".

> "The short term objective is to achieve minimum reserves sufficient to withstand the financial effects of two years of drought equal to the worst on record [1937-1941], plus an amount equal to the maximum loss the Corporation is liable to incur under its self-insurance program".
>
> (Minimum Filing Requirements page 118)

Hydro expects to achieve their minimum target reserve by the end of the 1995 fiscal year. At that point they estimate their debt equity ratio will be 93:07. These forecasts assume rate increases will be related to changes in the rate of inflation of approximately 5.0 percent provided all other assumptions materialize.

The inclusion of a reserve for self-insured losses in the current application arose from a Board recommendation in the 1989 hearing. On page 680 of the transcript, Mr. Brennan testified that a task force review of the maximum liability exposure to Hydro estimated a provision for self-insurance loss of $40 million (1987 dollars). This estimate was based on a potential third-party liability related to dam failure at Grand Rapids.

In regard to minimum reserve targets, Mr. Peltz in final argument for CAC/MSOS stated:

> "We are prepared, however, not to jump up and down too much about the minimum target reserve this year because even the short term target is five years away."
>
> (Transcript page 1327)

As part of the 1990 hearing, Hydro filed expert testimony by Mr. Boocock supporting the Board of Manitoba Hydro's decision on financial objectives. Mr. Boocock endorsed both a reserve for drought conditions "...equal to the worst two consecutive years of loss arising from poor water flow..." and a reserve for self-insurance. However, Mr. Boocock

did not indicate in his report what an appropriate level for the reserve for self-insurance would be.

Board Findings

The Board notes that neither counsel for MIPUG nor counsel for CAC/MSOS raised objections to the concept of a provision for minimum reserves in order to preserve rate stability. The objections of CAC/MSOS principally centred around the period over which these reserves were to be achieved. Based on evidence filed by Hydro in the 1988 hearing, the Board is aware that forecast reserves in the current application will be at the highest level of the last 10 years. The Board accepts the short term objectives of minimum target reserves as indicated in IFF89-3 and accepts that these targets include a provision for self-insurance.

2.3 Long Term Financial Objectives

As a result of the 1989 hearing, the Board recommended in Order No. 99/89 that:

> "The Board of Manitoba Hydro develop appropriate long term financial objectives including an appropriate debt-equity ratio target and a plan for implementation. This information should be included in Hydro's next rate application."

In response to this recommendation, Hydro proposes to achieve and maintain a debt equity ratio of 85:15 within the 10 year period following the achievement of target minimum reserves. Hydro stated on page 8 of its Rate Increase Application that:

> "This would provide for increased internal generation of funds in proportion to other financing and mitigate the sharp increase in carrying costs that occurs when new plant is built to meet customer requirements...[and] in an era of greater economic uncertainty and with ongoing system expansion, minimum reserve target levels will not be adequate in the long term to protect against the degree of risk that Manitoba Hydro faces."

Hydro also proposes a long-term financial objective of maintaining an interest coverage ratio which is acceptable to financial markets. The Hydro Board has approved this target ratio at 1.15 to 1.25 except immediately before and during periods within which the costs of new facilities are being absorbed into the rate base. The long-term financial objectives set by Hydro are consistent with the recommendations of Mr. Boocock. Mr. Boocock's report, on page 47 & 48, stated that these objectives:

> "...reduce the risk that the Corporation will not be self-supporting...[and] assist in the maintenance of a sound credit rating."

Further,

> "...the interest coverage helps to ensure that the Corporation will not require cash subsidies from the government."

In closing argument, counsel for CAC/MSOS acknowledged that considerable debate surrounding the proposed debt equity ratio and interest coverage ratio had occurred during the hearing. However, he also noted that as both items are long-term issues, they do not have a direct impact on the current rate increase request by Hydro.

Mr. Osler, on behalf of MIPUG, testified that he believed Manitoba Hydro could retain its financial self-sufficiency by achieving and maintaining its minimum reserves target. However, he also notes that given the potential impact on rates with the advent of the next generation facility, the primary guide for setting long term rate and financial targets over and above minimum reserve targets should be rate stability. Counsel for MIPUG stated that they accept the need for:

> "...long term debt equity rate [sic] in the range of 95:05 to 90:10...[however] we do not believe that sufficient justification has been established for any higher level of long term equity...and we note that the high level of reserves may initiate further charges from the Province."
>
> (Transcript page 137

Board Findings

The Board notes the longstanding debate as to whether Manitoba Hydro requires more equity in the Corporation or whether Hydro should continue to pay dividends to its customers through lower rates. Proponents of inter-generational equity would suggest that today's customers should pay only the costs necessary to provide them with services in that period; they should not be required to pay costs incurred to provide service to customers of another period.

As pointed out by Mr. Boocock, the principle of rate stability and predictability tends to violate the principle of inter-generational equity as costs are being deferred to another period in the interest of "smoothing" rate increases.

The Board recognizes that privately owned utilities have been urged by their regulators, including this Board, to have appropriate debt equity ratios. The Board also notes from Appendix 3 of Mr. Boocock's evidence that 1987 debt equity ratios for crown corporations ranged from a low of 74:26 for Sask Tel and Edmonton Power to a high of 98:02 for Nova Scotia Power Corporation. Ontario Hydro and Hydro Quebec were at 84:16 and 75:25 respectively. For reasons noted by Mr. Boocock and supported by

Hydro's witnesses, the Board is of the view that Hydro should strive to improve its debt equity ratio which for the fiscal period ending 1990 is 97:03.

Since Hydro forecasts that it will not achieve its minimum target reserves until 1995, the Board believes long term objectives can be more properly reviewed once the short term objective is approached. The Board does not feel compelled nor does it feel it appropriate to endorse the specific long term targets proposed by Hydro in the context of the current rate application which deals with only the fiscal year ending March 31, 1991.

The Board will look to Hydro's long term objectives as a guide for future rate-setting purposes. However, the Board does not intend to endorse these objectives in isolation of other considerations in the rate determination process.

2.4 Guarantee Fee

The Province of Manitoba unconditionally guarantees payment of the principal and interest on Hydro's debt. Hydro stated that the Provincial Guarantee Fee is a charge which reflects the value of the Provincial Guarantee on all Manitoba Hydro debt and the services provided by the Minister of Finance for acting as fiscal agent on behalf of Hydro. This fee does not include direct issue related expenses such as underwriting commissions, legal fees, and similar costs which represent additional costs to Hydro.

The Provincial Guarantee fee increased from .125% (one-eight percent) of long term debt outstanding to .25% (one-quarter percent) effective April 1, 1990. The previous rate has been in effect since the fee was first introduced in 1962. This rate is calculated on the gross value of outstanding debt before considering Hydro's sinking fund deposit held by the Minister of Finance. The effect of the increased rate will add approximately $5.0 million dollars to revenue requirement for the 1991 fiscal year. This increase represents approximately 19 percent of the total increase in revenue requirement.

Mr. Boocock, on page 27 and 28 of his report, states that "Hydro has a low level of equity in its capital structure,...its financial position is only sustained by the existence of the government guarantee...[which] allows the utility to reduce its cost of capital". Further "...it would be appropriate to compensate the government for the value of the guarantee". In response to Board counsel, Mr. Boocock on page 494 of the transcript stated that "...it would be my view that the overall value of that guarantee is certainly higher than the fee that is being charged".

Counsel for CAC/MSOS argued that the guarantee fee did not represent a legitimate charge and, as well, the method of calculating the fee without taking Hydro's sinking fund deposit into account was inappropriate. Additionally, Mr. Peltz tabled a motion that the guarantee fee not be allowed in revenue requirement. This motion was dismissed in Board Order No. 35/90.

Counsel for MIPUG, on page 1369 and 1370 of transcript, stated:

> "...we are of the opinion that the government is entitled to recover the cost of the guarantee, but that in no event should the government or others suggest that this cost of the guarantee be equated to the value to the Utility..."

Mr. Campbell added:

> "...Mr. Boocock has said that in effect these charges are a return on equity, and that that's what the government is getting in a sense, having a stated policy of lowest rate of return, but through the back door they are getting an ROE [return on equity]."

Board Findings

The Board accepts the position of both Hydro and Mr. Boocock that the guarantee fee assessed by the Province of Manitoba as the guarantor of Hydro's long

term debt represents a legitimate cost to Hydro. Mr. Peltz argued that the fee should not be calculated on the gross value of Hydro's long term debt but on the net amount after considering the sinking fund on deposit with the Minister of Finance. The Board accepts that it is a reasonable commercial practice to base a guarantee fee on the gross amount of the guarantee. Furthermore, Hydro receives a rate of return of approximately 10% on the sinking fund on deposit with the Minister of Finance.

The Board heard evidence that Hydro does not take an active role in the setting of the fee and heard further arguments that the fee is established by contractual agreement. However, there was no evidence to suggest that the fee was inordinately high and in fact the Board heard evidence to the contrary. Hydro responded, through Mr. Boocock, that without the guarantee it would be unable to raise funds for its capital projects (Transcript page 888). Notwithstanding, the Board notes that Hydro has met all obligations without requiring the Province to act under its principal and interest guarantee. The Board will allow the guarantee fee in revenue requirement, as applied for, on the basis that it is a legitimate cost to Hydro.

Board Recommendation

It is therefore recommended that:

> Hydro and the Province should negotiate the guarantee fee to ensure that the fee is commensurate with the associated risk for which the fee is intended.

2.5 Water Rental Rates

The Province of Manitoba charges Hydro a rental rate for water used in the generation of power at each of Hydro's generation sites. These water rental rates per horsepower year are set by the Provincial Government.

The water rental rate as outlined below was increased September 1, 1989 to $9.90 per horsepower year from $8.96 per horsepower year. As a result of both the increased water rental rate and increased generation forecasted, the cost to Hydro for water rentals in 1990/91 will increase by approximately $4.5 million. This increase represents approximately 17.4% of the total increase in revenue requirement. The historical water rental rates for the past 10 years are summarized as follows:

Effective Date	Rate Per Horsepower Year
September 1, 1989	$ 9.90
April 1, 1987	8.86
July 11, 1986	11.75
April 11, 1985	4.75
June 1, 1981	3.25
April 1, 1980	1.25

Counsel for CAC/MSOS acknowledged that, unlike their contention in regard to the provincial guarantee fee, water rental costs are specifically legislated and therefore represent a legitimate cost to Hydro. Mr. Peltz, however, tabled a motion that some of the water rental licences granted to Hydro were suspended and, therefore, a portion of the water rental rates should be excluded from revenue requirement. This motion was dismissed in Board Order No. 35/90.

Counsel for MIPUG expressed concerns on page 573 of the transcript that the water rental rates "...are tantamount to hidden taxation by the Province". Dr. Campbell went on to state that:

> "We have never argued that there should be no rental charges...But, we would be very happy if the level of water rentals that existed in the early '80s had been increased simply by the rate of inflation..."
>
> (Transcript page 574)

Dr. Campbell concluded that:

> "Furthermore,...if the water rental rates increase had not been there to drain Hydro of its reserves at the same time the Utility was suffering from its low water condition, then we would not have anything like the problem we have today in terms of reduced reserve level in Manitoba Hydro."

(Transcript page 575)

Board Findings

The Board notes that increases in water rental rates will clearly have an effect upon Hydro rates.

In the Board's Report to the Minister dated March 31, 1988, the Board stated:

> "Water rental rates are a cost of doing business. Manitoba Hydro has no control over this cost and must design its rates to cover all of its costs. The Board believes there should be only gradual changes in water rental rates as abrupt increases in water rental rates leads to rate instability."

Board Recommendation:

It is therefore recommended that:

> Future increases in water rental rates, as set by the Province, should not exceed the rate of inflation in any given year.

2.6 Manitoba Energy Foundation Act (MEFA)

MEFA was intended to provide for sharing of revenues between the Manitoba Energy Authority and Hydro from certain designated sales of export power by Hydro. Mr. Ransom indicated in his opening remarks that the Government of Manitoba has introduced legislation to repeal the MEFA. Mr. Ransom further stated that the repeal of this legislation will result in additional funds remaining with Hydro for the benefit of domestic customers.

Mr. Osler, on behalf of MIPUG, endorsed the repeal of MEFA which he indicated would contribute an additional $810 million to Hydro's reserves through the year 2009. In response to MIPUG, Hydro filed evidence that the repeal of MEFA would not affect its forecasts until 1994 and would result in forecasted reserves increasing by a further $31.1 million in 1994 based on the assumptions in IFF89-3. In response to questions by counsel for CAC/MSOS, Mr. Beatty indicated:

> "...[if] those additional dollars are provided as we have outlined, then we are certainly in much better shape, but we are still in very bad shape from the standpoint of reserves, and we want to see our reserve position improved as quickly as possible."
>
> (Transcript page 324)

Mr. Ransom stated further that:

> "...we have based our application on what we know now, and that is that the Energy Foundation Act has not yet been repealed. If we knew that it was to be repealed, we might well have said we would try and achieve our minimum target [reserves] in a shorter period of time."
>
> (Transcript page 330)

The Manitoba Energy Foundation Act was repealed in March 1990.

Board Findings

The repeal of MEFA is not forecast to affect Hydro's operating results before 1994, which is outside the time frame of the current application. The Board would agree that in the short term, Hydro should address its minimum reserve requirements and that a slow down in this program as a result of the MEFA repeal is unnecessary at this time. However, the Board notes that repeal of MEFA will mitigate the financial impact of the current drought conditions by increasing potential future earnings and reserves. Therefore, the Board will consider the potential improvements in forecast reserves from this source at future rate application hearings.

2.7 Operating and Administrative Expenses

In evaluating its financial performance for 1989, witnesses for Hydro noted "...management's continuing efforts to delay or reduce controllable costs wherever possible, providing the Corporation will not be compromising customer service or system integrity, and that significantly higher costs will not be incurred at a later date...". Furthermore, "...as a result of this commitment, costs associated with operation, maintenance and administration...remained essentially equivalent to the previous year, and were significantly below those forecast". With regard to the 1990 fiscal year and the 1991 fiscal year under review, Hydro's witnesses indicated that Operating and Administrative expense forecasts would decrease by $8.0 million and $6.2 million respectively over the prior year due to "...continuing management restraint...[and]...deferral of maintenance programs".

As part of minimum filing requirements, Hydro provided a detailed analysis of Operations expenses forecast for 1991 of $261.8 million which is $16.2 million (6.6%) higher than 1989/90. The primary reason for the projected 1991 increase is:

		$Million	Percent Increase
1.	Increase in wages and salaries	$ 11.7	8.8%
2.	Increase in pension costs	2.8	8.3%
3.	Increase in maintenance work orders	0.8	3.8%
4.	Increase in other categories	0.9	1.6%
		$ 16.2	

The total increase in wages and salaries is consistent with the increases for 1990. In response to a Board recommendation in Board Order No. 99/89, Hydro filed a detailed analysis of wage and salary costs. Total increases in wage and salary costs due to increased numbers of staff represents $6.9 million. Approximately $7.7 million of the total increase represents an increase in actual salaries and wage costs. The combined increase of $14.6 million is offset by an additional $2.9 million of wage and salary costs capitalized and therefore not included in revenue requirement for 1991.

Hydro's witnesses indicated that a corporate reorganization had eliminated certain senior positions thereby increasing corporate efficiency. Mr. Brennan testified that no further cutbacks in operating expenses were possible at this time since "...we would have done it otherwise" (Transcript page 993). Mr. Peltz offered Hydro "...a pat on the back on the basis of the bottom line performance here" (Transcript page 995).

Board Findings

The Board considers the increase in wages and salaries, being the primary increase in Operating and Administrative expense, to be reasonable. The Board encourages Hydro in its continuing efforts to control or reduce operating and administrative expenses.

The Board notes on pages 6 and 7 of the Hydro Rate Increase Application that:

> "Manitoba Hydro continues to defer expenditures whenever possible when this will not result in significant long term economic and operational penalty to the Corporation or its customers. An improvement in water conditions over those which are forecast would provide additional revenues which would permit overdue system maintenance and improvements to take place."

The Board notes Hydro's view that the delay or reduction of controllable costs should not compromise or jeopardize customer service and system integrity. The Board cautions that the deferring of maintenance and other controllable costs should not contribute to abnormally high rate increases or rate shock in the future.

2.8 Foreign Exchange Exposure

Under Hydro's Exposure Management Program introduced in the 1989 hearing, Hydro would no longer recognize the amortization of foreign exchange gains and losses related to U.S. debt instruments. Hydro stated that cash outflows from debt charges and debt repayments will be matched with cash inflows from export sales to U.S. customers, thereby enabling the Corporation to fix the exchange exposure at a certain point in time.

In Board Order No. 99/89, the Board expressed concern regarding the potential for Hydro's Exposure Management Program to defer foreign exchange gains and losses into the future, thus violating the concept of inter-generational equity. In response, Hydro filed a detailed explanation supporting its position that the Exposure Management Program would not violate inter-generational equity. Hydro's Minimum Filing Requirements indicated that:

i) at the direction of the Hydro Board, net U.S. dollar exposure is limited to 20% of total long term debt as recorded in the year end financial statements;

ii) forecasted U.S. dollar energy sales figures utilized in the calculation of net exposure are conservative and, therefore, "...the risk of deferring significant foreign exchange losses to future ratepayers, as a result of U.S. unfirm energy sales not being achieved, is virtually non-existent";

iii) all U.S. dollar cash flow projections, assumptions and net exposures are closely monitored and actively managed.

Hydro stated in response to a Board information request that the net exposure under the Exposure Management Program at October 31, 1989 is $560.4 million. The limit of exposure in accordance with the policies identified above is $680.6 million U.S. Hydro further stated in its minimum filing requirements that the net exposure is calculated over approximately 30 years until the last contracted U.S. dollar cash flow

With the amendment to the Energy Rate Stabilization Act (ERSA), responsibility for exchange rate fluctuations on all off-shore debt after April 1, 1989 was transferred to Hydro. Total off-shore debt at March 31, 1989, being debt denominated in other than U. S. or Canadian dollars, represented approximately 2.9% of Hydro's total long term debt. Hydro indicated that approximately 90.6% of the off-shore debt is denominated in Japanese Yen and has been fully hedged to Canadian dollars with no foreign exchange gain or loss to Hydro. Approximately 10% of Hydro's total long term debt at March 31, 1989 was covered by ERSA. The balance of this debt is denominated in U.S. dollars and was incorporated into the Exposure Management Program in the 1989/90 fiscal year.

Board Recommendations

It is therefore recommended that:

As part of its minimum filing requirements at future rate hearings, Manitoba Hydro file updated information concerning the status of net exposure under the Exposure Management Program as well as a summary of Hydro's continuing efforts to manage its foreign debt under this program.

2.9 Pension Costs

In Board Order No. 99/89, the Board accepted Hydro's decision to recognize current service pension costs as they were incurred and to amortize the unfunded pension liability over a fifteen year period beginning in 1989/90. At the last hearing, the Board of Manitoba Hydro had not made a final decision regarding funding of the unfunded pension liability.

In the Minimum Filing Requirements for the current application, Hydro indicated that the issue of funding the unfunded pension liability was still unresolved although it was under review. In response to a Board information request, Hydro stated that a preliminary review had not identified any compelling reasons for the establishment of a pension fund to meet Hydro's future pension obligations since future ratepayers were not exposed to additional costs of financing the obligation by not funding the pension liability. Finally, Hydro concluded that, while the funding decision is not expected to have an impact on the operating results of the corporation, a detailed review of the issue will be undertaken within the next year.

Board Findings

Hydro's witnesses' testified that future ratepayers are not exposed to additional costs of financing the pension obligation as a result of failing to fund the obligation today. Notwithstanding this view, the Board believes the unfunded pension liability should be funded.

Board Recommendations

It is therefore recommended that:

> Consistent with Board Order 99/89. it is proper to fund the unfunded pension liability and the Board notes that Manitoba Telephone System has begun such a program.

3.0 COST OF SERVICE

In support of its application, Hydro provided a prospective cost of service study for the fiscal year ending March 31, 1991. In the study, the budgeted net contribution to reserves was included as a cost and allocated on the same basis as interest expense. Apart from these changes, and the consequent necessity of basing the study on forecast data, methods were substantially the same as those used in the study filed with the Board in 1989.

3.1 Generation and Transmission Costs

The appropriateness of the method used in allocating generation and transmission costs was challenged by MIPUG. As in previous studies, a fraction of such costs equal to the Domestic system load factor was classified as energy and allocated on energy use. The balance of generation and transmission cost was classified as demand and allocated on the coincident peak demands of the customer classes. In its order 99/89, the Board observed that inasmuch as the average demand portion of peak demands is also energy-related, the final result is to allocate a very large portion of all generation and transmission costs on the basis of energy use.

MIPUG contended that the portion allocated on energy was too high. On the basis of Exhibit MIPUG-6, Mr. Osler testified that methods used in some other Canadian jurisdictions would, if applied in Hydro's system, result in lower allocated costs for Large General Service customers. He advocated use of the Average and Excess method, which would result in a moderate shift of revenue/cost ratios in favour of high load factor classes. He further advocated allocation of transmission costs on a demand basis and appealed for an early resolution of the matters in dispute (Transcript pages 1200-1206).

Board Findings

While cost of service methods approved in other jurisdictions are of some interest and it is apparent that differences exist between utilities, such differences

differences can affect causal responsibility for system costs and allocation methods suitable in one case may not be suitable in another. Therefore, the Board is not persuaded that decisions concerning Hydro's cost of service methods should be made on the basis of precedents involving other utilities.

In its Order No. 99/89, the Board recommended an independent review of cost of service methodology appropriate for use by Hydro, and observed that until such a review had been made, it did not have the facts necessary for an appropriate resolution of the issues raised. Subsequently, Hydro commissioned such a study, but the results were not available at the time of the current hearing. The situation is therefore unchanged. The Board will continue to accept Hydro's present method of allocating generation and transmission demand costs until such time as new information, based on Hydro's system, provides justification for change.

Board Recommendation

It is therefore recommended that:

> Hydro file the report of its consultant, regarding cost of service methodology, at the earliest possible opportunity rather than filing it at the next rate application.

3.2 Cost of Service Accuracy

Mr. Wiens testified that a number of changes to enhance the Cost of Service study have occurred including methodology and the preparation of a prospective versus a historical study. Mr. Wiens also testified that the chief sources of inaccuracy in cost of service results are insufficiency of load data and unresolved questions of methodology (Transcript, page 1057). A load research study is to be undertaken beginning in 1990 with preliminary results expected by approximately 1992. Mr. Vander Veen estimated that the existing Cost of Service study results are dependable within an error limit of plus or minus 10 percent (Transcript page 1037).

Board Findings

The Board notes that Hydro is undertaking a load research program intended to address input data deficiencies. The Board also notes that longer periods of data collection will be required to obtain the full benefits of the research program (Transcript, page 1061).

Several of the perceived imperfections in the present Cost of Service study may lead to random error in study results and the Board accepts Mr. Vander Veen's estimate regarding the error limit currently surrounding the Cost of Service study. However, the Board recognizes that failure to take distribution system losses into account (Transcript page 1013) results in a distinct bias where the apparent costs recovery by classes served at the lowest distribution voltages is artificially enhanced.

4.0 RATES

Rates proposed in this application derive in part from policies established by the Hydro Board, comprising a zone of reasonableness for RCC ratios of the rate classes as well as a policy of moving all class ratios within that zone as quickly as possible. These policies are subject to constraints on the differential impacts caused at any one time by the adjustments process.

4.1 Zone of Reasonableness

Hydro has set a target range of .90 to 1.10 for RCC ratios, with a temporary range of .85 to 1.15 until certain improvements in the cost of service study have been implemented. These ranges were recommended in a study by Ernst & Young. MIPUG contended that a target range of .95 to 1.05 should be adopted, in conformity with regulatory policy in some other Canadian jurisdictions, and with regulatory policy for gas utilities in Manitoba (Mr. Osler, pre-filed testimony; Transcript page 1197).

Board Findings

The Board notes that some subclasses still lie well outside the temporary range adopted by Hydro and that more than one rate adjustment will be necessary to achieve that target zone of reasonableness. The Board also notes Mr. Ransom's comments on transcript page 1141 that Hydro's rate policies are subject to periodic adjustment according to the circumstances. The Board therefore views Hydro's zone of reasonableness as a guide to rate development over the short and medium term, rather than as a long-range target, and will accept it in dealing with the present application.

4.2 Rate Objectives and Levels

It is the contention of CAC/MOSS that an increase of 1% more than average for the Residential class is unjustified since that class now has an RCC of more than .85 which is already higher than the average for Canadian provinces.

In his testimony, Mr. Osler recommended a "meaningful" reduction in the RCC of the General Service Large (over 100 KV) class, based on the fact that its RCC is over 1.10 and has increased as a result of the last two rate revisions. The Large General Service class is one of several subclasses within the General Service group. Mr. Ransom testified (Transcript page 1078) that Manitoba Hydro Board's policy directive had been confined to rate classes rather than subclasses. Mr. Wiens further stated (Transcript page 120) that Hydro is trying to eliminate special circumstance rates before dealing with RCC's of subclasses.

Board Findings

The Residential class is the only class with an RCC less than 1.00. If classes with ratios far above unity are to receive relief, it will be necessary to impose above-average increases on the Residential class.

The Board notes some subclasses have RCC's well outside the .85 to 1.15 zone, including:

Residential, Zone 3	0.82
General Service Small, Zone 1	1.24
General Service Small, Zone 2	1.18
General Service Medium, Zone 2	1.16
General Service Large, 30-100 KV	1.21

The Board is of the opinion that the subclasses with greatest disparity should be accorded priority in the adjustment process. Nevertheless, the Board will concur in MIPUG's request that no adjustment be made which would move the RCC of any class or subclass farther from unity.

The Board has ordered a reduction of each rate class's proposed increase by 0.5 percent in order to reflect the approved revenue requirements outlined in

Section 2.1 of this Order. These changes will not alter the progress intended by the Applicant toward the reduction of RCC disparities.

4.3 Rate Design

Mr. Wiens stated in his pre-filed evidence that the design of rates discussed in the Minimum Filing Requirements incorporates both strategies of the Hydro Board and short and long range targets approved by the Hydro Board in respect of alignment of rates with cost of service. The proposed rates continue to address RCC imbalances by applying lower increases to the General Service Small (Non-demand) and Streetlighting classes and higher increases to the Residential Class.

Rates were also designed to accomplish a "...blending of Special Circumstance rates into their respective rate zones". As a result only two Special Circumstance rates will remain after this application. Mr. Wiens stated that rates for General Service Small customers were set to improve and ultimately eliminate the disparity between demand-metered and non-demand customers.

Board Findings

The Board notes and accepts Hydro's explanation of various changes in rate design which progress towards elimination of an energy block in the Residential rate and reduction of any anomaly in the Small General rate. The Board considers that satisfactory progress is being made towards the elimination of special circumstance rates.

5.0 OTHER MATTERS

5.1 Winnipeg Hydro Agreement

Hydro is currently negotiating a new power supply agreement with Winnipeg Hydro. In response to questions from Board counsel, Mr. Brennan indicated that negotiations have begun but are still at a preliminary stage. Current projections regarding the sale of power to Winnipeg Hydro are based upon the existing agreement. Under the existing agreement, which will expire on March 31, 1990, Winnipeg Hydro shares in the costs of new facilities as well as revenues generated from those facilities excluding domestic loads of the respective companies.

Board Decision

It is therefore ordered that:

5. Hydro provide the Board with a copy of the new agreement with Winnipeg Hydro as soon as negotiations are completed.

5.2 Diesel Full-Cost Customers

Concurrently with the main rate application Hydro applied for final approval of Interim Ex-Parte Order No. 186/89. This Order approved a two-stage change to Diesel Full-Cost Rates, effective July 1, 1989 and July 1, 1990. These rate changes affect approximately 384 customers in 13 northern Manitoba Communities.

Full cost customers are not subject to the 15 amp service limitation available to Limited Service Residential and Limited Service General Service customers and, therefore, pay rates which reflect the full cost of providing that service. Additionally, government full-cost customers pay a surcharge which subsidizes costs related to providing service to Limited Service customers. Limited Service customers pay the same

rates as regular Zone 3 customers which is approximately 37% of the diesel cost of service. The surcharge paid by government full-cost customers increases the Limited Service customer's revenue to cost coverage (RCC) to 85%, which is consistent with the RCC of Zone 3 residential ratepayers in other parts of the Province.

The Board heard spokespersons for the diesel communities' residential customers at the non-evidentiary hearings held at Thicket Portage and Pikwitonei and at the main evidential hearing. The diesel Limited Service customer's primary concerns can be summarized as follows:

1. Fifteen amp service is inadequate. Householders are restricted to the use of one minor appliance (i.e. toasters, a frying pan) at any one time and are unable to use major appliances (i.e. a washer, a dryer, a refrigerator) at all.

2. Limited Service residential customers receive inferior service but pay the same rates as other Zone 3 customers receiving 200 amp land line service.

3. Hydro power is generated in the north but is not available to many northerners.

4. Hydro's plan to enhance service to the diesel communities, though appreciated, will take too long to implement.

Hydro testified that, at a minimum, all diesel communities will be upgraded to 60 amp service by the end of the decade. The economics of extending land-line transmission from the central system to the diesel communities of Gods River, Gods Lake Narrows, Oxford House, Red Sucker Lake and Island Lake (consisting of Garden Hill, St. Theresa and Waasagomach) is presently being investigated.

Communities which are not being considered for land-line service include Shamattawa, Tadoule Lake, Lac Brochet. Brochet, Thicket Portage and Pikwitonei. However, subject to a satisfactory cost sharing arrangement between Hydro and the Federal and Provincial governments, the possibility of extending land-line service to Thicket Portage and Pikwitonei is also being studied.

Board Findings

The Board appreciates the concerns expressed by a number of presenters who appeared at both the evidentiary hearing in Winnipeg and the various non-evidentiary hearings conducted throughout northern Manitoba. The Board encourages Hydro in its own efforts and in discussions with government authorities to provide improved service to ratepayers in Northern communities currently serviced by diesel generation either through improvement of existing diesel service or the introduction of land line service. Limited Service ratepayers should note Hydro's comments that previous experience has shown land line service triples the use of electricity with a corresponding increase in monthly bills and without any increase in rates.

Board Decision

It is therefore ordered that:

6. The Diesel Full-Cost Rates effective July 1, 1989 and July 1, 1990, as set out in Interim Ex-Parte Order 186/89, be and are hereby confirmed.

5.3 Responses to the Board's 1989 Recommendations

As part of the Minimum Filing Requirements, Hydro submitted responses to the conclusions and recommendations of the Board as outlined in Order No. 99/89. All recommendations were received favourably by Hydro and, where appropriate,

implementation has occurred or is under consideration. The Corporation's position on specific recommendations has been appropriately discussed in related sections in this Order.

With respect to the impact of major export sale agreements on domestic rates, Hydro stated that sales would have to be structured in order to satisfy senior management and the Hydro Board that such a sale would be of benefit to Manitoba consumers when compared to a no-sale scenario. Further, Hydro indicated that "...to the extent that generation sequences would be affected by a new sale these transactions would be discussed with the Public Utilities Board at the future major capital project plan hearing". Such a hearing is scheduled for the summer of 1990.

In the 1989 hearing, the Board requested that Hydro provide procedures by which the interruptible rates of the corporation may be addressed by the Board in a timely manner. In response, Hydro stated:

> "Interruptible [export] sales are open-market negotiated...[and] the Corporation quantifies and minimizes risks associated with export sales and...there is no practical procedure by which these hour-by-hour decisions can be governed by detailed guidelines....the sales occur over a brief time-frame and the incremental costs are small".

Hydro further testified that these sales are always beneficial to the domestic consumer since if power is not sold, the water otherwise used to produce the power will be "spilled".

Board Findings

The Board acknowledges Hydro's stated position above with regard to interruptible rates for export power. However, the Board reiterates its recommendation with regard to interruptible rates for domestic users.

Board Recommendation

It is therefore recommended that:

> Hydro file with the Board as soon as possible, and by no later than the next rate hearing, a procedure by which the interruptible rates for domestic users may be addressed by the Board in a timely manner.

6.0 THE PRESENTERS

The Board heard a number of presentations from private citizens both in Winnipeg and in other centres where non-evidentiary hearings were held. Presentations were also made by representatives of People in Equal Participation (PEP), the Northern Association of Community Councils (NACC), the communities of Wabowden, Thicket Portage, Pikwitonei and The Pas and Paint Lake Remote Cottage Owners. The overwhelming opinion of these presenters was that the proposed increase was too onerous particularly where it impacts on those with fixed incomes.

In response to one presenter, the Chairman noted that:

> "...the public's knowledge of how these utilities go about their business, their accounting practices, how much money is involved, is very little known. I think that's largely because most people are not business people. You are a small businessman, you can read a set of books. You know what cash flow is. You know what the reserve is. The average consumer does not".
>
> (Transcript page 172)

Mr. Ransom responded that Hydro has recently published a document for distribution to the public to explain in layman's terms how Hydro does business.

Another presenter questioned the appropriateness of Hydro's authority to build additional generating capacity and sell power to export markets at prices below the rate sold to domestic consumers. Mr. Ransom indicated that power sold on an interruptible basis is sold in a competitive market at the highest price the market would bear at that time. The Chairman noted that in the case of firm export sales, and the construction of generating capacity to meet firm export sales, Hydro will be subject to a public examination in August 1990 to examine whether the proposed capital projects will provide a positive benefit to domestic consumers.

Finally, a presenter discussed the impact of taxes on the cost to ratepayers, including the new Goods and Services Tax (GST) due to be implemented in 1991. The presenter also pointed out that residential customers are required to pay for hydro in after-tax dollars while commercial customers, to the extent that they are taxable, pay for hydro in before-tax dollars.

In regards to the non-evidentiary hearing held in The Pas, the Mayor of that community expressed his appreciation to the Board for:

> "...having this kind of a session, but I think more, so listening to your travel itinerary it is very important to ensure that communities along the Bay Line also have an opportunity to be involved in this process..."
>
> (Transcript page 7, The Pas)

Board Findings

The Board thanks the many presenters who made submissions during the course of this hearing. Furthermore, the Chairman noted that although the interests of residential consumers were actively represented by counsel for CAC/MSOS, the comments of the presenters were appreciated and individuals and businesses as a whole are encouraged to express their opinion in similar public forums which will undoubtedly be held in the future.

IT IS THEREFORE RECOMMENDED THAT:

1. Hydro and the Province should negotiate the guarantee fee to ensure that the fee is commensurate with the associated risk for which the fee is intended.

2. Future increases in water rental rates, as set by the Province, should not exceed the rate of inflation in any given year.

3. Consistent with Board Order 99/89, it is proper to fund the unfunded pension liability and the Board notes that Manitoba Telephone System has begun such a program.

4. Hydro file the report of its consultant, regarding cost of service methodology, at the earliest possible opportunity rather than filing it at the next rate application.

5. Hydro file with the Board as soon as possible, and by no later than the next rate hearing, a procedure by which the interruptible rates for domestic users may be addressed by the Board in a timely manner.

MO 1258 a

IT IS THEREFORE ORDERED THAT:

1. The applied for average increase in general consumer rates to be implemented April 1, 1990 be reduced by 0.5% to 4.0% resulting in an approved increase in revenue requirements of approximately $22.9 million.

2. The resulting reduction in applied for revenues of approximately $2,898,000 be allocated as follows:

   i) the proposed increase to streetlighting rates be reduced from of 1.5% to 1.0% (from $221,874 to approximately $148,000);
   ii) the proposed increase to small general service rates be reduced from 3.4% to 2.9% (from $3,573,090 to approximately $3,014,000);
   iii) the proposed increase to medium general service rates be reduced from 4.4% to 3.9% (from $3,053,243 to approximately $2,693,000);
   iv) the proposed increase to large general service rates be reduced from 4.4% to 3.9% (from $5,742,821 to approximately $5,059,000);
   v) the proposed increase to construction power rates be reduced from 4.4% to 3.9% (from $87,598 to approximately $77,000);
   vi) the balance of the revenue reduction of approximately $1,211,000 be allocated to the residential customers (from a proposed increase of 5.5% to 5.0%);

3. Hydro submit a revised schedule of rates to accommodate the foregoing for the Board's approval.

4. Hydro file a proof of revenue to support this schedule of rates.

5. Hydro provide the Board with a copy of the new agreement with Winnipeg Hydro as soon as negotiations are completed.

6. The Diesel Full-Cost Rates effective July 1, 1989 and July 1, 1990, as set out in Interim Ex-Parte Order 186/89, be and are hereby confirmed.

THE PUBLIC UTILITIES BOARD

"E . J. ROBERTSON"
Chairman

"D. de GRAFF"
Acting Secretary

Certified a true copy of Order No. 43/90
issued by The Public Utilities Board

Acting Secretary

APPENDICES

1.0 Integrated Financial Forecast (IFF) 89-3

2.0 Integrated Financial Forecast (IFF) 89-3 with MEFA Repeal

APPENDIX 1.0

MANITOBA HYDRO
PROJECTED STATEMENT OF OPERATIONS (IFF89-3)

For the years ending March 31

$ Millions

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
REVENUE																				
General consumers																				
At approved rates	$557.4	$572.9	$583.2	$596.3	$610.0	$624.2	$637.2	$649.9	$664.2	$677.1	$688.2	$697.7	$708.7	$720.0	$730.3	$740.6	$750.6	$760.9	$771.2	$781.7
Additional *	0.0	25.7	56.7	90.7	127.9	168.6	196.4	225.8	257.6	290.8	325.1	360.3	398.3	438.3	479.8	523.4	581.7	643.7	709.4	779.0
Winnipeg Hydro	47.0	51.5	61.8	66.5	66.6	70.3	71.0	74.9	79.6	82.2	85.4	96.8	104.5	108.4	114.4	118.0	123.5	128.0	132.4	136.9
Extraprovincial	47.8	60.0	99.2	134.2	215.6	223.6	234.6	247.6	210.2	254.3	309.8	363.7	417.1	450.6	409.9	372.4	268.9	271.1	294.1	299.9
Other	6.9	6.8	6.8	7.0	6.9	7.0	7.1	7.1	6.9	6.9	7.0	6.9	6.8	7.0	6.9	6.8	7.1	7.0	7.0	6.7
	659.1	716.9	807.7	894.7	1,027.0	1,093.7	1,146.3	1,205.3	1,218.5	1,311.3	1,415.5	1,525.4	1,635.4	1,724.3	1,741.3	1,761.2	1,731.8	1,810.7	1,914.1	2,004.2
EXPENSE																				
Finance expense	241.4	286.8	340.4	408.7	431.5	417.8	402.9	381.8	361.3	338.7	370.7	541.7	810.8	864.2	861.2	853.1	855.7	854.8	854.4	855.7
Depreciation	87.1	96.3	118.1	144.4	156.3	161.9	170.5	174.9	180.4	180.4	199.5	235.9	301.0	325.2	337.5	350.1	363.1	374.9	389.0	404.9
Wages and salaries	132.5	144.1	153.9	161.6	169.7	178.2	187.1	196.4	206.2	216.6	227.4	242.6	258.9	276.2	294.7	314.5	335.6	358.0	382.0	407.6
Other operating & admin.	116.4	123.3	130.8	139.5	149.7	159.0	168.6	178.7	189.4	200.5	214.2	232.5	254.2	269.0	260.7	274.4	308.3	304.6	321.3	338.8
Capitalized overhead	(32.4)	(34.8)	(36.3)	(38.1)	(40.0)	(42.0)	(44.1)	(46.3)	(48.6)	(51.1)	(53.6)	(57.2)	(61.0)	(65.1)	(69.5)	(74.1)	(79.1)	(84.4)	(90.0)	(96.1)
Lease payments & allow.	29.1	29.2	29.2	27.6	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9
Water rentals	31.2	35.8	43.6	43.9	44.9	44.9	45.8	45.1	43.5	45.9	49.4	52.1	54.4	55.1	54.9	55.4	54.3	54.6	54.7	54.6
Fuel & power purchased	15.9	8.9	9.2	9.3	15.7	20.9	21.0	31.9	54.0	55.8	35.1	20.5	19.0	19.6	20.4	15.5	12.7	8.4	9.8	11.3
	621.2	668.6	788.9	896.9	953.7	966.6	977.7	988.4	1,012.1	1,012.7	1,068.6	1,294.0	1,663.2	1,770.1	1,785.8	1,814.8	1,876.5	1,896.8	1,947.1	2,002.7
NET REVENUE	$37.9	$48.3	$18.8	($2.2)	$73.3	$127.1	$168.6	$216.9	$206.4	$298.6	$346.9	$231.4	($27.8)	($45.8)	($44.5)	($53.6)	($144.7)	($86.1)	($33.0)	$1.5

* ADDITIONAL GENERAL CONSUMER REVENUE

Revenue	0.0	25.7	56.7	90.7	127.9	168.6	196.4	225.8	257.6	290.8	325.1	360.3	398.3	438.3	479.8	523.4	581.7	643.7	709.4	779.0
Percent increase	0.0%	4.5%	5.0%	5.0%	5.0%	5.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	4.0%	4.0%	4.0%	4.0%
Cumulative % increase	0.0%	4.5%	9.7%	15.2%	21.0%	27.0%	30.8%	34.8%	38.8%	43.0%	47.3%	51.7%	56.2%	60.9%	65.7%	70.7%	77.5%	84.6%	92.0%	99.7%

RESERVE BALANCES

Forecast reserves	130.3	178.6	197.4	195.2	268.5	395.6	564.2	781.1	987.5	1,286.1	1,633.0	1,864.4	1,836.6	1,790.8	1,746.3	1,692.7	1,548.0	1,461.9	1,428.9	1,430.4
Minimum reserves	210.0	250.0	310.0	320.0	340.0	370.0	370.0	380.0	460.0	500.0	520.0	580.0	620.0	660.0	660.0	660.0	660.0	690.0	700.0	710.0

FINANCIAL RATIOS

Debt/equity	97:03	96:04	95:05	96:04	95:05	93:07	90:10	87:13	86:14	85:15	83:17	81:19	82:18	82:18	82:18	83:17	84:16	85:15	86:14	85:15
Interest coverage	1.10	1.11	1.04	1.00	1.14	1.23	1.30	1.36	1.30	1.38	1.40	1.25	0.97	0.95	0.95	0.95	0.85	0.91	0.97	1.00

APPENDIX 2.0

MANITOBA HYDRO

PROJECTED STATEMENT OF OPERATIONS (IFF89-3)

MEFA REPEAL

For the years ending March 31

$ Millions

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
REVENUE																				
General consumers																				
At approved rates	$557.4	$572.9	$583.2	$596.3	$610.0	$624.2	$637.2	$649.9	$664.2	$677.1	$688.2	$697.7	$708.7	$720.0	$730.3	$740.6	$750.6	$760.9	$771.2	$781.7
Additional *	0.0	25.7	56.7	90.7	127.9	168.6	196.4	225.8	257.6	290.8	325.1	360.3	398.3	438.3	479.8	523.4	581.7	643.7	709.4	779.0
Winnipeg Hydro	47.0	51.5	61.8	66.5	66.1	69.7	70.5	74.5	79.5	82.8	87.2	99.4	105.3	108.4	114.5	118.1	122.6	127.7	132.6	137.5
Extraprovincial	47.8	60.0	99.2	134.2	227.3	241.6	255.8	272.4	237.7	295.5	360.2	399.1	418.6	450.6	414.7	380.1	269.7	271.1	294.1	299.9
Other	6.9	6.8	6.8	7.0	6.9	7.1	7.1	7.1	6.9	7.1	6.9	6.8	6.7	6.9	6.9	6.9	7.1	6.9	7.1	6.8
	659.1	716.9	807.7	894.7	1,038.2	1,111.2	1,167.0	1,229.7	1,245.9	1,353.3	1,467.6	1,563.3	1,637.6	1,724.2	1,746.2	1,769.1	1,731.7	1,810.3	1,914.4	2,004.9
EXPENSE																				
Finance expense	241.4	266.8	340.4	408.7	431.0	415.8	398.0	374.0	349.9	321.9	347.0	510.0	773.6	822.6	814.6	800.2	796.6	788.9	781.0	773.8
Depreciation	87.1	95.3	118.1	144.4	156.3	161.9	170.5	174.9	180.4	180.4	199.5	235.9	301.0	325.2	337.6	350.1	363.1	374.9	389.0	404.9
Wages and salaries	132.5	144.1	153.9	161.6	169.7	178.2	187.1	196.4	206.2	216.6	227.4	242.6	258.9	276.2	294.7	314.5	335.6	358.0	382.0	407.6
Other operating & admin.	116.4	123.3	130.8	139.5	149.7	159.0	168.6	178.7	189.4	200.5	214.2	232.5	254.2	269.0	260.7	274.4	308.3	304.6	321.3	338.8
Capitalized overhead	(32.4)	(34.8)	(36.3)	(38.1)	(40.0)	(42.0)	(44.1)	(46.3)	(48.6)	(51.1)	(53.6)	(57.2)	(61.0)	(65.1)	(69.5)	(74.1)	(79.1)	(84.4)	(90.0)	(96.1)
Lease payments & allow.	29.1	29.2	29.2	27.6	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9	25.9
Water rentals	31.2	35.8	43.6	43.9	44.9	44.9	45.8	45.1	43.5	45.9	49.4	52.1	54.4	55.1	54.9	55.4	54.3	54.6	54.7	54.6
Fuel & power purchased	15.9	8.9	9.2	9.3	15.7	20.9	21.0	31.9	54.0	55.8	35.1	20.5	19.0	19.6	20.4	15.5	12.7	8.4	9.8	11.3
	621.2	668.6	788.9	896.9	963.2	964.6	972.8	980.6	1,000.7	996.9	1,044.9	1,262.3	1,625.9	1,728.5	1,739.1	1,761.9	1,817.4	1,830.9	1,873.7	1,920.8
NET REVENUE	$37.9	$48.3	$18.8	($2.2)	$85.0	$146.6	$194.2	$249.1	$245.2	$357.4	$422.7	$301.0	$11.7	($4.3)	$7.1	$7.2	($85.7)	($20.6)	$40.7	$84.1

*** ADDITIONAL GENERAL CONSUMER REVENUE**

Revenue	0.0	25.7	56.7	90.7	127.9	168.6	196.4	225.8	257.6	290.8	325.1	360.3	398.3	438.3	479.8	523.4	581.7	643.7	709.4	779.0
Percent increase	0.0%	4.5%	5.0%	5.0%	5.0%	5.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	4.0%	4.0%	4.0%	4.0%
Cumulative % increase	0.0%	4.5%	9.7%	15.2%	21.0%	27.0%	30.8%	34.8%	38.8%	43.0%	47.3%	51.7%	56.2%	60.9%	65.7%	70.7%	77.5%	84.6%	92.0%	99.7%

RESERVE BALANCES

Forecast reserves	130.3	178.6	197.4	195.2	280.2	426.8	621.0	870.1	1,115.3	1,472.7	1,895.4	2,196.4	2,208.1	2,203.8	2,210.9	2,218.1	2,132.4	2,111.8	2,152.5	2,236.6
Minimum reserves	210.0	250.0	310.0	320.0	340.0	370.0	370.0	380.0	460.0	500.0	520.0	580.0	620.0	660.0	660.0	660.0	660.0	690.0	700.0	710.0

FINANCIAL RATIOS

Debt/equity	97:03	96:04	95:05	96:04	94:06	92:08	89:11	86:14	84:16	83:17	80:20	78:22	78:22	78:22	77:25	77:23	78:23	78:22	78:22	78:24
Interest coverage	1.10	1.11	1.04	1.00	1.16	1.27	1.35	1.41	1.36	1.47	1.50	1.34	1.01	1.00	1.01	1.01	0.91	0.98	1.04	1.09